

COUNTY ADMINISTRATOR
James O. McReynolds



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October 7, 2005

The Board of Supervisors
County of York, Virginia

Dear Members of the Board:

We are pleased to submit to you the Comprehensive Annual Financial Report of the County of York for the fiscal year ended June 30, 2005, as required by the *Code of Virginia*. The Department of Financial and Management Services has prepared this report in accordance with accounting principles generally accepted in the United States of America (GAAP), the standards of financial reporting prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board and the Auditor of Public Accounts of the Commonwealth of Virginia. The independent certified public accounting firm of Cherry, Bekaert, & Holland, L.L.P., has audited the financial statements and their opinions are contained within this report.

Responsibility for both the accuracy of the presented data and the fairness of the presentation, including all disclosures, rests with the County. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the various funds of the County; and that all disclosures necessary to enable the reader to gain maximum understanding of the County's financial activity have been included.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the Certificate of Achievement for Excellence in Financial Reporting, the government's organizational diagram and a list of principal officials. The financial section includes the report of independent auditors on the basic financial statements, management's discussion and analysis, the basic financial statements, required supplementary information other than management's discussion and analysis, and other supplementary information. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The County government is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and US Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Information related to this single audit, including the schedule of expenditures of Federal awards, findings and questioned costs, and auditors' reports on internal control and compliance with applicable laws and regulations are included in the financial section of this report.

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A Hampton Roads Community

The County, as a separate and distinct political entity, provides a wide range of municipal services as contemplated by statute. Major functions include general government services, judicial services, public safety, environmental and development services, finance and planning, education, human services, general services and community services. In addition, the County operates and maintains a solid waste disposal program and water and sewer utility systems service geographically dispersed areas of the jurisdiction.

The County has included in its financial statements two discretely presented component units. Discretely presented component units are entities that are legally separate from the County, but for which the County is financially accountable, or whose relationships with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The component units are the York County School Division and the Economic Development Authority of York County.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors on pages C-1 through C-12 of this report.

PROFILE OF THE GOVERNMENT

The County is located in the Virginia coastal plain on the peninsula formed by the James and York Rivers and the Chesapeake Bay. The County has a land area of 108 square miles and is bounded by James City County and the cities of Poquoson, Hampton, Newport News and Williamsburg, and by the York River. The County land area is effectively split into two distinct sections by a large area of federal landholdings, including the Coast Guard Training Center, the Colonial National Historical Park, and the U.S. Naval Weapons Station. In addition, the U.S. Navy's Cheatham Annex, the U.S. Army's Camp Peary, and the U.S. Air Force's Bethel Manor Housing Complex (Langley Air Force Base) with its associated reservoir bring the total federal landholdings in the County to approximately 40%. There are no incorporated towns within the County. The County is empowered to levy a property tax on both real and personal properties located within its boundaries.

Established in 1634, the County has played a role in the development of this nation in that it was the location of the culminating battle of the Revolutionary War and the subsequent surrender of Lord Cornwallis and his British army on October 19, 1781.

The County is organized under the traditional form of government (as defined under Virginia Law). The governing body of the County, the Board of Supervisors, establishes policies for the administration of the County. The Board of Supervisors comprises five members: one member from each of five districts, elected for a four-year term by the voters of the district in which the member resides. The Board of Supervisors appoints a County Administrator to act as the administrative head of the County.

The County provides a full range of services, including law enforcement and fire protection. The County also is financially accountable for the legally separate School Division and the legally separate Economic Development Authority, both of which are reported separately as discretely presented component units within the County's financial statements. Additional information on each of these legally separate entities can be found in Note 1A in the notes to the financial statements.

The annual budget serves as the foundation for the County's financial planning and control. All departments and agencies of the County are required to submit requests for appropriation to the County Administrator on or before the third week of January of each year.

The County Administrator uses these requests as a starting point for developing a proposed budget for presentation to the Board of Supervisors for review the first week of March. The Board of Supervisors is required to hold public hearings on the proposed budget and to adopt a final budget by no later than May 1. The budget is prepared by fund and function (e.g. public safety). The County Administrator may make transfers of appropriations within a function. Transfers between functions require the prior approval of the Board of Supervisors. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages G-2 through G-5 as part of the required supplementary information other than management's discussion and analysis. For governmental funds, other than the general fund, with appropriated budgets, this comparison is presented in the other supplementary information subsection of this report, which starts on page H-2.

ECONOMIC CONDITION AND OUTLOOK

York County continues to enjoy a relatively strong local economy. During the year, population grew to more than 63,200 and both the residential and commercial tax bases continued to expand. While growth has increased demand for government services, it has also provided additional resources. These additional resources, coupled with the existing financial base, and the conservative fiscal policy of the Board of Supervisors and County management, enabled the continued provision of the same high level of government service that has come to be expected of York County. As the debt levels, revenue base, and fiscal reserves and bond rating indicate, the County has a solid financial foundation.

MAJOR INITIATIVES

During the formulation of the fiscal year 2005 budget, the Board of Supervisors directed that the governmental emphasis be focused on maintaining a high level of support for the operation and construction of the schools, public safety, corridor improvements/beautification, continued maintenance and extension of municipal water and sewer service, continued maintenance and upgrade of the County stormwater system and the capital improvements program of the County. Accordingly, this direction was translated into a number of specific projects to which major portions of the available resources were allocated.

Operations

Planning –

The Comprehensive Plan, titled *Charting the Course to 2015*, provides a long-range plan for the physical development of the County. The current plan was adopted in 1999 after an extensive review process involving citizens and civic and business groups, the Planning Commission and the Board of Supervisors. State law requires that a locality's comprehensive plan be reviewed every five years. That review process started in 2004 and will culminate with the Board's adoption of the next edition of the County's plan, *Charting the Course to 2025*, before the end of the calendar year.

The goals and initiatives discussed in the current plan, and likely to carry over into the updated version, include encouraging quality commercial growth, supporting of the County's School division, purchasing conservation easements and environmentally sensitive lands, developing new recreational facilities, beautifying major entrances and commercial corridors including placing existing overhead utilities underground, construction of bicycle and pedestrian improvements leveraged with local funding, continued modernization and improvement of the County's emergency response and management capabilities and upgrading the technology available to County students and citizens.

Economic Development

The York County Office of Economic Development (OED) and the Economic Development Authority (EDA) had an active and highly successful year in 2005. The two worked together to stimulate the continued expansion of the County's business base. For the first time, a significant amount of time and resources were also committed to redeveloping the County's oldest commercial corridor, Route 17. This effort has already paid off as new investment in the corridor has mushroomed.

The Lightfoot Corridor remained red hot and the highlight of 2005 was the opening of the Great Wolf Lodge, which represents a \$62 million investment. The Lodge has been so successful that they have already announced plans to add another 100 suites to the existing 301 family-sized suites. Phase I of the Williamsburg Market Center kicked off with the opening of Home Depot that was closely followed by announcements from Chick-Fil-A and BB&T Bank that they will occupy out parcels. Phase II of the project will be anchored by 52,000 square foot Ukrops grocery store that will open in 2006. At full build out the Williamsburg Market Center will total 335,000 square feet of retail development. Interest in the International Business Center located next to the Market Center also escalated in 2005. Plans were announced by two separate developers for new office projects and a third company will construct flex space. I-Hop, Wachovia Bank and Fairfield Resorts will also build new facilities in the corridor in 2006.

At the direction of the Board of Supervisors, the OED and EDA developed and implemented a Route 17 Corridor Revitalization plan in 2004/05. This multifaceted redevelopment effort included ordinance revisions, new public investment, and a \$250,000 property improvement grant program. Over \$230,000 has been awarded to existing businesses on a dollar for dollar matching basis for facility upgrades. This effort has sparked additional private sector investment in the corridor including a new Days Inn, Tabb Center Offices and Farm Fresh occupying space vacated by Winn Dixie several years ago. We received a National Association of Counties achievement award for the Route 17 program.

On Memorial Day weekend, the County opened its \$12 million waterfront, dining and shopping destination "Riverwalk Landing". The anchor restaurant and all ten retail shops are leased and doing very well. This unique development has received rave reviews from tourists and locals. The project's design and architecture blends beautifully with historic Yorktown and the commercial and recreational piers on the York River are very popular. This new development coupled with the existing, world class museums and an improved public beach has solidified Yorktown as a major attraction in Greater Williamsburg. Riverwalk Landing will greatly benefit the entire historic triangle and augment our regional tourism strategy.

Capital Improvements Program

The County's six-year capital improvements program indicates that a major emphasis will continue to be placed on expansion of water and sewer facilities, school facilities, maintenance of buildings and improvement of stormwater facilities.

Growth in the County's population is projected to continue an upward trend. Along with this growth, the County can anticipate an increased demand for government services.

Park Land Acquisition and Design –

The County has secured a site for an athletic field complex and is nearing completion of the conceptual master planning and necessary site studies, along with the development of construction drawings. Construction is expected to begin in summer 2006.

Stormwater Maintenance Program –

The stormwater maintenance program continues to address ongoing drainage maintenance within County easements. For fiscal year 2005, the stormwater capital improvements program included the areas of Brandywine, Moore's Creek, Foxwood-Darby, Firby and Edgehill/Fort Eustis Boulevard. Fiscal year 2006 projects include continued work at the above projects.

Yorktown Capital Improvements –

The County is committed to the revitalization of the Riverfront area in Historic Yorktown and other highly visible sections of Yorktown. In October 2000, the Board of Supervisors adopted the fiscal year 2001-2007 Yorktown capital improvements program as a long range planning document.

The revitalization of Yorktown includes the improvement plan for the waterfront area most of which was completed in 2005. The revitalization efforts included the construction of a new 9,000 square foot waterfront restaurant and 10,000 square feet of retail space. The commercial development is supported by a new 250 car-parking terrace. Two piers have been constructed capable of docking dinner cruise boats, passenger cruise lines, tall-ships and recreational boats. The commercial development is part of a riverwalk project that will connect the new commercial waterfront area with the National Park Service's "Information Center," the Watermen's Museum and the Commonwealth of Virginia's "Victory Center" Museum.

Other projects within the Yorktown Capital Improvements Program include the following:

- Utility Undergrounding – to improve aesthetics by placing existing overhead utilities underground in other highly visible areas in Historic Yorktown.
- Streets, Walkways and Drainage – to improve drainage, enhance existing or add new walkways, improve street surfaces, enhance pedestrian lighting and improve signage.
- Shoreline Stabilization – to stop or minimize the loss of sand from the Yorktown shoreline and to protect the shoreline from the damaging storms.

Water and Sewer Projects

A schedule of major water and sewer construction projects in the County's Capital Improvements Program is below.

<u>Project</u>	<u>Type</u>	Target Completion <u>Date</u>	Number of <u>Properties</u>
Skimino Hills	Sewer	FY2006	165
Marlbank Area Phase I	Sewer	FY2006	75
Marlbank Area Phase II	Sewer	FY2007	125
York Point Phase I	Sewer	FY2007	120
York Point Phase II	Sewer	FY2008	80
Queens Lake Phase I	Sewer	FY2007	150
Queens Lake Phase II	Sewer	FY2008	150
Queens Lake Phase III	Sewer	FY2009	100
Queens Lake Phase IV	Sewer	FY2010	100
Carver Place	Sewer	FY2007	11
Wolftrap Road	Sewer	FY2007	21
Old Wormley Creek Road	Sewer	FY2010	100
Darby/Firby Area	Sewer	FY2010	43
Falcon/Loblolly Drive	Sewer	FY2010	116
Hornsbyville Road	Sewer	FY2011	69
Oak-Dogwood	Sewer	FY2011	59
Old Quaker Estates	Water	FY2010	112

The County issued revenue bonds on December 1, 1999 for \$9.4 million to support the Utilities Strategic Capital Plan relating to sewer projects. In June 2005, \$8.575 million of the remaining bonds from this issue were advance refunded to take advantage of the drop in interest rates. These bonds will be repaid from the Sewer Utility Fund's revenues.

Schools

York High School Renovations -

The design work for a major renovation of York High School was completed in fiscal year 2005. The scope of this project includes HVAC, lighting, floor, ceiling, floor covering, painting, electrical, windows, asbestos abatement and approximately 36,000 square feet of roof replacement. Construction started in July 2005 and is scheduled to continue through March 2007.

School Division Office Renovations/Additions -

The scope of this project includes renovation of the existing 15,000 square foot building and the addition of 10,000 square feet. Construction started in August 2005 and is scheduled to continue through March 2007.

Tabb High School Gym Construction -

The construction of an auxiliary gymnasium will provide adequate space for team practices. Construction started in August 2005 and is scheduled for completion in September 2006.

Yorktown Middle School Renovations -

Built in 1953, the renovations will include HVAC, ceiling, floor covering, painting, electrical, windows and asbestos abatement. Initial A&E work is scheduled for fiscal year 2006 with the renovations scheduled for 2007.

Regional and Joint Cooperation

Regional Jail -

Along with James City County and the Cities of Williamsburg and Poquoson, the County is a member of the Virginia Peninsula Regional Jail Authority. The Authority was created in 1993 for the purpose of constructing and operating a single jail for the participating localities. The project was developed to relieve the severely overcrowded conditions at existing facilities in the County and other jurisdictions. With the opening of this facility in June 1997, the County-owned facility was demolished and converted to additional parking for activities in the Yorktown historic area.

Juvenile Jail Facility -

A regional coalition was created involving 16 counties and 2 cities, of which the County is a voting member, to secure a juvenile detention facility. A 48-bed facility was opened in December 1997 to meet the demand for secure juvenile detention placements among the member jurisdictions.

Other Projects -

The County will continue to participate in a number of entities intended to address regional activities such as transportation, economic development and planning. The number of studies and planning projects done regionally will likely increase over time as localities within Hampton Roads recognize their shared future. The design, procurement and operation of the Communications System Upgrade project is a joint venture with James City County.

FINANCIAL INFORMATION

The County's accounting records for general governmental operations are maintained on the modified accrual basis. This essentially involves the recording of revenues when they become measurable and available and the recording of expenditures when the goods and/or services are received or related fund liability is incurred. Accounting records for the County's enterprise (utility systems) and internal service (motor vehicle pool) funds are maintained on the accrual basis.

In developing and evaluating the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are a system of methods, practices and procedures designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived therefrom; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal accounting control evaluations occur within the above framework. We believe that the County's system of internal accounting control adequately safeguards assets and provides reasonable assurance for the proper recording of financial transactions. Budgetary controls are maintained to ensure compliance with the budget approved by the Board of Supervisors. The approved budget is used as a tool to monitor general government expenditures within the limits adopted by the Board. Encumbrances are used to reserve a portion of the applicable appropriation for purchase orders, contracts and commitments of the County. Open encumbrances are reported as reservations of fund balances at year-end.

CASH MANAGEMENT

The County Treasurer, through daily activity with several local banking institutions and investment pools, carries out an aggressive cash management program. Temporarily idle funds are invested promptly in repurchase agreements and other instruments that are secured or collateralized by government securities as required by the *Code of Virginia*. Income from this cash management program was in excess of \$1,179,800 for fiscal year 2005.

RISK MANAGEMENT

During fiscal year 2005, the County continued its long-standing practice of maintaining third party coverage for basic property, casualty, and liability risk. To enhance the attractiveness of the County in the competitive bid process for this coverage, continued attention is given to loss management. Through the use of appropriate deductibles and the services of a professional risk management consultant, costs associated with this risk management program have been stabilized at an acceptably low level.

The County and the School Division have contracted with a third party to administer a high-deductible workers' compensation program with risk of up to \$200,000 for each occurrence subject to a \$600,000 annual aggregate on the combined claims.

INDEPENDENT AUDIT

The *Code of Virginia* and the Commonwealth's Auditor of Public Accounts require an annual audit of the books of account, financial records and the transactions of all administrative departments, agencies and activities of the County by an independent certified public accountant selected by the Board of Supervisors. This requirement has been complied with and the report of independent auditors has been included in the financial section of this report.

In addition to meeting the requirements set forth in State statutes and regulations, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and related OMB Circular A-133. The reports of independent auditors, which relate specifically to the single audit, are also included in the financial section of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the County of York, Virginia for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This was the 19th consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

DISTINGUISHED BUDGET PRESENTATION

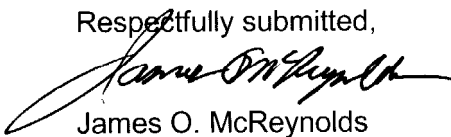
The Government Finance Officers' Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the County of York, Virginia for its annual budget for the fiscal year beginning July 1, 2004. In order to receive this award, a governmental entity must publish a budget document that meet program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe that our current budget continues to conform to program requirements and we are submitting it to the GFOA to determine its eligibility for another award.

ACKNOWLEDGMENTS

The preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the Department of Financial and Management Services, especially the Division of Budget and Financial Reporting, the Office of the Treasurer, the School Division and the York/Poquoson Department of Social Services. I would like to express my appreciation to all of the members of these staffs who assisted and contributed to its preparation. I would also like to thank the members of the Board of Supervisors who, both individually and collectively, provided the guidance and support essential to the conduct of the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,



James O. McReynolds
County Administrator



Marycarol C. White, Director
Financial and Management Services